

RINCO

edinamandi
nani eihle!

YHCO



TIPS

TRADE & INDUSTRIAL POLICY STRATEGIES

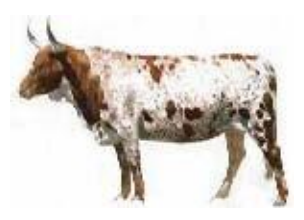


INDUSTRIAL POLICY THEMATIC WORKING GROUP

Trade and Industrialisation Policies Experiences from Zambia

Dale Mudenda

December 2009



indigenous growth

Trade and industrialisation policies experiences from Zambia

Dale Mudenda
8/9/2009

Contents

List of tables and figures	3
Acronyms	4
Abstract	5
1. Introduction	6
1.1 Objectives of the paper	6
1.2 Organisation of the paper	7
2. Evolution of Industrial and trade Policy in Zambia	7
2.1 Government Controlled 1964 - 1990.....	8
2.1.1 Inward Looking Development industrialisation strategy	9
2.1.2 Parastatal Development	10
2.1.3 Small and Medium Enterprises	11
3. Trade Policies 1964 to 1990	12
4. Performance of Manufacturing sector 1968 to 1990.....	14
4.1 Manufacturing in GDP	14
4.2 Exports Performance	15
4.3 Employment Trends	16
5. Policy Reform Period: Post Liberalisation period 1991 - 2009	17
5.1 Industrial Policy: 1991- 2009	17
5.2 Post-reforms trade policy	18
5.3 Synergy between Industrial and Trade Policy.....	22
5.4. Performance of the Industrial Sector 1991 – 2008.....	23
5.4.1 Contribution to GDP	23
5.4.2 Contribution to Employment.....	24
5.4.3 Contribution of manufacturing to Exports	25
5.4.4 Structure of manufactured exports	26
6. Conclusions	27
7. References	29

LIST OF TABLES AND FIGURES

Table 1: Trends in selected macroeconomic indicators 1965-1991	7
Table 2: Un-weighted mean tariff rates (%)	12
Table 3: Distribution of Manufacturing Value Added, 1965 - 1987	14
Table 4: Main Trade-Related Measures, 1991-2003	19
Table 5: Structure of the Manufacturing - Value Added Sector 1994- 2008	24
Table 6: Selected Exports Indicators	26
Table 7: Structure of manufactured exports	27
Figure 1: Proportion of Non-traditional and Traditional Exports in Total Exports	15
Figure 2: Manufacturing employment as a % of formal employment.....	16
Figure 3: Share of Agriculture, Manufacturing and Services in GDP, 1994 - 2008	23
Figure 4: Manufacturing Formal Employment as a % of Total Formal employment 1991-2006	25

ACRONYMS

AGOA	African Growth and Opportunity Act
BoZ	Bank of Zambia
COMESA	Common Market for Eastern and Southern Africa
DTIS	Diagnostic Trade Integrated Study
CSO	Central Statistical Office
EBA	Everything But Arms
EBZ	Export Board of Zambia
EPMD	Export Promotion and Market Development
ESA	Eastern and Southern Africa
EU	European Union
Fob	Free On Board
GDP	Gross Domestic Product
IMF	International Monetary Fund
INDECO	Industrial Development Corporation
MCTI	Ministry of Commerce, Trade and Industry
MoFNP	Ministry of Finance and National Planning
MINDECO	Mining Industrial development corporation
MVA	Manufacturing Value Added
NCDP	National Commission for Development Planning
NTEs	Non Traditional Exports
PSDP	Private Sector Development Programme
SADC	Southern African Development Community
UDI	Unilateral Declaration of independence
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organisation
ZIMCO	Zambia Industrial and Mining Corporation
ZDA	Zambia Development Agency
ZRA	Zambia Revenue Authority

ABSTRACT

The Zambian economy has undergone profound reforms in the last two decades. It has transitioned to a market economy from the previously centrally planned economy. As part of the economy-wide reforms, the country's industrial and trade policies have also been re-oriented to suit the needs of the market-oriented economy. This paper therefore reviews the evolution of Zambia's industrial and trade policies from 1964, when the country gained independence, to 2009. This period is divided into two: the first period being before the reforms in 1991, and the second period being 1991 – 2009.

The paper observes that Zambia managed to rapidly industrialise immediately after independence through direct establishment of state-owned enterprises and promotion of import substitution strategy. However, the performance of these firms remained unsatisfactory, often operating at less than full capacity. The sector failed to create linkages with the rest of the economy and could not generate adequate employment for the country. The trade policy during this period discouraged export sales and encouraged production of domestic consumer goods through the use of high tariffs and quantitative and foreign exchange controls. Government used the anti-export bias policies to industrialise. By 1991, the performance of these strategies proved to be unsustainable. Government introduced the Structural Adjustment Programme and re-oriented its trade and industrial policies towards the market. Government's role has changed from that of an investor to creating a conducive (mainly macroeconomic stability and licensing reforms) and incentivised environment for private export oriented industrialisation strategy. The incentives have included fiscal incentives and infrastructural support. The reforms have resulted in an increased production and export of manufactured goods by more than 300% between 1991 and 2008.

1. INTRODUCTION

At independence from Britain in 1964, Zambia inherited a very strong economy concentrated on copper extraction and characterised, accordingly, by a very narrow industrial and agricultural base. Manufacturing contributed only six percent to GDP. The industrial sector was underdeveloped because the colonial government's primary interest was in mining for resources to develop South Africa and Southern Rhodesia, their preferred settlement areas. An additional disincentive to invest in Zambia was that its lack of access to the sea meant that raw materials and other inputs imported from abroad had to be transported a long way across the land at considerable expense (World Bank, 1981). However, the country experienced rapid economic growth between 1964 and 1975, not only in comparison with earlier periods but also in comparison with growth rates achieved in many Sub-Saharan African (SSA) countries. With a balance of payments and budget surpluses from the copper export proceeds at independence, the country put forward a number of ambitious investment programmes aimed at developing infrastructure, at broadening the industrial base and at improving social services.

Aware of the vulnerability of copper exports to external shocks and the undesirable economic structure, the government of the Republic of Zambia, through the 1964 White Paper, outlined an industrialisation policy which shifted the focus from production of primary commodities to industrial goods which were perceived to be associated with modernisation. The policy shift was propelled, in part, by the prevailing economic argument that equated development to the transformation of a low income society using traditional technologies and producing mainly primary commodities into a high income society using modern technologies to produce both primary and industrial goods for domestic and foreign consumption. Industrialisation anchored on manufacturing was widely viewed as a key ingredient for economic diversification and the productivity growth required for the country's improved living standards and its ability to compete in the world market. This recognition arose from the fact that industrialisation/manufacturing offers the greatest scope for positive externalities and increasing returns which create the largest multipliers for employment, poverty reduction and overall economic progress.

Although industrial and trade policies in Zambia and the developing countries has remained important for industrial development, the context for the design of industrial policy has changed drastically in the face of the rapidly changing economic environment, new rules governing international trade, and the rise of international value chains and marketing networks (UNCTAD, 2007).

1.1 Objectives of the paper

The objective of this paper is to highlight the evolution, foundations, progress indicators and linkages between industrial and trade policies in Zambia. The paper traces how industrial policy development has evolved during the period 1964 to 2009 in the context of industrial-plan formulation and implementation on one hand, and actual results on the other. The purpose is to generate systematic literature highlighting Zambia's trade and industrial

policies and how they and their formulation and performance have changed over time. The study is based on existing literature and other secondary databases. The literature review is important in order to inform and harness the various views of the evolution of Zambian industrial policy.

1.2 Organisation of the paper

This paper is structured as follows: section 2 and 3 discuss the evolution of industrial trade between 1964 and 1990 respectively. The performance of the manufacturing sector before 1991 is discussed in section 4. Section 5 highlights the trade and industrial policies between 1991 and 2000. The final section, section 6 concludes.

2. EVOLUTION OF INDUSTRIAL AND TRADE POLICY IN ZAMBIA

Zambia inherited a copper-based economy. Copper accounted for over 90% of foreign exchange and 40% of gross domestic product in 1964. The new government at independence adopted new economic policies aimed at diversifying the economy into agriculture and industrial development. The reforms then conducted – and which became consolidated in 1968 – proved viable until 1974 when the copper export prices fell by over 40% while the price of fuel quadrupled. Compounded by the domestic economic errors, the GDP growth rate dropped from an average of 5% between 1965 and 1974 to -1.4% between 1981 and 1985. As a result, real GDP per capita collapsed from an average of US\$538 to US\$336 between 1975 and 1990. The budget deficit increased from 5% between 1964 and 1974 to 12 percent between 1986 and 1990. Government could not sustain its industrialisation strategy.

Table 1: Trends in selected macroeconomic indicators 1965-1991

	1965 - 1974	1975-1980	1981-1985	1986 - 1990	1991
GDP growth rates	5.42	-0.8	-1.5	1.7	-1.8
GDP per capita (US\$)	538	498.7	260	336	420
Inflation rate	6	14.4	20.7	72	94
Budget Deficit % GDP	-5	-15.2	-12.58	-12	-7
Current account (% GDP)	3	-11.0	-12.92	-14	-15
Agriculture	4%	15%	15%	13%	12%
Mining	45%	16%	15%	15%	8%
Manufacturing	8%	26%	25%	26%	38%
Services	43%	42%	44%	45%	42%
NTEs % Total exports	3%	4%	25%	11%	9%

Source: CSO data base

In response to the 1972/3 oil crisis and the 1975 global recession, the country attempted to implement the structural adjustment under the guidance of the international monetary fund between 1983 and 1985. The reforms entailed adopting market-oriented economic liberalisation and price decontrols. The decontrol of prices resulted in a sharp rise in food prices that resulted in public protests against the reforms. In response, government

abandoned the reforms on account of high costs of adjustments. The second adjustment episode was initiated in earnest in 1991. Thus, for analytical purposes, the policies are discussed in two broad episodes: 1964-1990 and 1991-2009.

2.1 Government Controlled 1964 - 1990

During the first four years of independence (1964-68) Zambia pursued a largely capitalist economic orientation with little public sector participation in the national economy. This period was accompanied by booming economic prospects for the country, supported by favourable prices on copper. Zambia earned over 90% of its export revenues from copper. The level of industrial development was very low with manufacturing contributing only 6.3% to GDP while employing about 1800 people (Table 1). The country's industrial policy was stated in many government policy documents including the White Paper Outline of the government's Industrial Policy (1964, 1966), the First National Development Plan (1966-1970), the Mulungushi Declaration (1968) and the Second National Development Plan (1972-1976). The 1964/6 industrial plans under the Ministry of Commerce Trade and Industry outlined the objectives and guidelines of industrialisation in Zambia to include:

- Development and diversification of the economy,
- Reduction of imports and improved saving of foreign exchange,
- Emphasis on labour intensive industries and promotion of employment,
- Linkage effects,
- Production of surplus for export, and
- Dispersion outside the main (urban) production centres.

Overall, the policies proposed a more ambitious programme without essentially changing the inherited capitalist strategy for industrial development. The plan recognised the dearth of indigenous entrepreneurship, capital as well as the size of the market. Reliance was put on foreign private entrepreneurs to supply capital, technology and management, the legacy of the colonial era. The policy emphasised import substitution. Exporting to world markets was considered unfeasible, though regional markets were explored.

The Mulungushi declaration and subsequent plans adopted a socialist Philosophy of Humanism which emphasised self-reliance. The free market economy – referred to as a “capitalist's solution” by policy-makers to economic management – was considered ineffective to accelerate economic transformation and industrialisation. Government undertook to intervene directly through direct investments and promotion of Zambian entrepreneurs. However, the local entrepreneurs were not to grow beyond a certain size in a bid to reduce the creation big monopolistic businesses referred to as capitalists in a socialist state. The local entrepreneurs were urged to become small and medium sized privately owned businesses. This was achieved by among other things issuing licences and reserving geographical and business areas to Zambians only (Bhagava M. R. 1978). For most of the period between 1968 and 1991, government's industrial policies were comprised of measures and government actions that shifted resources into industry through direct budget support and indirectly through trade policy incentive systems such as tariffs, quantitative trade restrictions and exchange rate management. This was evident in the national plans and annual budgets. For instance, the Second National Development Plan (1972–1976) set a

target of 15% annual growth rate in manufacturing value added (MVA). This was to be attained through an import substitution strategy (Fincham R., 1980). Emphasis was placed on meeting the basic needs of the people through domestic resources. A number of industrial sectors, comprising meat processing, dairy products, fertilisers, textiles and sulphuric acid for the mining sector were targeted for development. The plan also aimed at promoting small enterprises in rural areas.

The Third National Development Plan (1979-1983) did not change government policy and strategy except that the MVA target was lowered to grow at 8% per annum. Overall, the industrialisation was pursued mainly through two main strategies that included inward looking development strategy and parastatal development strategies. These are discussed next.

2.1.1 Inward Looking Development industrialisation strategy

Zambia adopted the inward-oriented development strategy in the form of the Import Substitution Industrialisation (ISI) strategy. This was mainly because it was appealing to policy-makers who valued self-reliant development (and out of political necessity). On the latter, the Unilateral Declaration of Independence in Zimbabwe (then Rhodesia), which was the main source of manufactured commodities, and the subsequent closure of its border with Zambia, forced the country to start producing consumer goods that had previously been imported. Moreover, part of the ISI was forced on the Zambian economy given the failure of the economy to generate enough foreign exchange to maintain its import bill (Seshamani V., 1994). The state used its high copper revenues to finance state-owned local industries to produce goods that had previously been imported. Trade policy measures entailed the protection of local industries through high tariffs applied to import competing goods. The applied tariffs ranged between zero for capital goods and 150% for final consumer goods. Import licensing and priority sector-based foreign exchange allocations were also used to promote the ISI strategy (World Bank, 1981 and World Bank, 1984).

Seshamani (1994) drew the following points in terms of the country achieving the objectives outlined in the 1964/1966 strategy:

First, the ISI turned out to be focussed on import-intensive industries. Local goods production employed imported technology, imported plant machinery, imported intermediate inputs and imported raw materials. Most of the industries had technologies that afforded limited adaptability to the use of local inputs. Instead of saving foreign exchange, the strategy increased the need for it. The final stage assembly of many finished goods from imported inputs and parts made them uncompetitive and cost ineffective. Moreover, the importation of almost all inputs meant limited linkages with the domestic firms were in fact created.

Huge import dependence associated with the Zambian ISI strategy amid foreign exchange shortages resulted in companies operating below their capacity. With foreign exchange shortages, government adopted exchange allocations strategy. The allocations followed Government prioritisation of the industries based on necessity and luxury classifications. As

a result of the difficulty in accessing foreign exchange, most industries had to cut production, increasing unutilised capacity and thereby pushing overheads up.

Secondly, most of the manufacturing industries were capital intensive and were employed on large scale processes. The industries did not contribute significantly to employment generation because of the capital intensive nature of the technologies. Industry accounted for only 15% of the formal sector employment.

Finally the ISI did not help to diversify the economy in terms of sources of foreign exchange. Manufactured exports contributed 1.3% in 1984/5. By 1988, manufactured exports accounted for less than 5% of foreign exchange earnings. However, they accounted for 60 – 70% of total imports during the first half of the 1980s.

2.1.2 Parastatal Development

In 1964, government's intervention in industrial development was intended to complement the private sector, mainly arising from market failures. The role of the Industrial Development Corporation was to invest in industries that private firms were unwilling to venture into. However, government in 1968, proposed a more ambitious programme of industrial development using a new strategy of direct state ownership of firms by acquiring at least 51% shares in most private firms and parastatal developments.

The change in policy was aimed at accelerating economic diversification, industrialisation, Zambianisation and capital localisation to ensure that profits were reinvested in the country. To this end, the Industrial Development Corporation (INDECO) was mandated to operate nationalised enterprises and venture into new companies. It served as a government holding company for the manufacturing sub-sector. By the mid-1970s, government warned off INDECO from holding and managing areas pertaining to finance, transport, hotels, petroleum, trade and distribution and fisheries. The corporation was tasked to focus mainly on industry, especially heavier manufacturing industries such as fabricated metal products, building materials and a variety of industrial and consumer products (World Bank, 1984).

During the period 1968 to the mid 1970s, state-led industrialisation succeeded largely because Government was able to finance most of the ventures using the huge earnings from copper exports. However, the impact of the collapse in copper prices during the mid 1970s and the rising cost of borrowing affected investments in public enterprises. Most of the industrial problems associated with ISI affected state-owned enterprises rather than private firms. Despite adopting the parastatal industrialisation strategy, the private sector was allowed to operate. However, the environment remained largely unfavourable to private sector development (Mwanza A., 1998).

The state-owned enterprises were managed through an elaborate institutional arrangement. The Zambia Industrial and Mining Corporation (ZIMCO) was created as a holding company to oversee the Industrial Development Corporation (INDECO) and the Mining Development Corporation (MINDECO). INDECO served as a holding company for the manufacturing sub-

sector. The INDECO board was accountable to the ZIMCO board. ZIMCO provided the policy guidelines, reviewed performance and some of INDECO's decisions such as pricing.

The holding company and its subsidiaries were supposed to implement government policy as outlined in the National Development Plans and other sectoral policies and strategies. Although detailed planning studies of specific sectors were envisaged at the industrial strategy formulation stage through the National Commission for Development Planning (NCDP), there is no evidence that these studies were undertaken. Rather, the needs of the nation were a driving force in the investment decisions.

Generally cabinet ministers and the Prime Minister were involved in the running of ZIMCO and acted as directors in some of the INDECO's and MINDECO's boards (World Bank, 1984, Seshamani 1988). However, in 1979, organisational reforms reduced political involvement in the running of the corporation, restricting board membership to the ZIMCO Board. The INDECO Board had reduced political representation while some of the directors were appointed from the private sector.

2.1.3 Small and Medium Enterprises

Government industrial policy largely ignored the role of small and medium enterprises in the industrialisation process during the first decade after independence. In 1980, government undertook to promote their development. It thus enacted the Small Industrial Organisation Act in 1981 to address specific challenges facing the sector's growth. This facilitated the incorporation of SMEs into the fourth National Development Plan (1988-1993).

The plan set out to achieve, among other things, the following objectives:

- a) Identify and promote SMEs that have the potential for output expansion and employment creation,
- b) Provide necessary infrastructure for the efficient operation of SMEs,
- c) Improve and expand production of SMEs of selected groups such as subsistence farmers, self-employed workers etc. so as to boost their levels of income,
- d) Promote the managerial and organisational skills of entrepreneurs.

The Act provided for the establishment of the Small Industry Development Organisation (SIDO) to oversee the development of SMEs largely under collective rather than private ownership. In addition, Government set up the Development Bank of Zambia (DBZ) and the Village Industries Services (VIS) to facilitate the funding of these enterprises. However, the envisaged results of policy instruments set out by the development plan faced three major hurdles. These were firstly, no specific targets and strategies were put in place to achieve the set objectives, secondly, support institutions established to finance the scheme suffered from under-funding and poor management and, finally, passive state intervention in the operations of private enterprises. These, among other factors, constrained the emergence of small scale entrepreneurs.

3. TRADE POLICIES 1964 TO 1990

Trade policy in Zambia has been greatly influenced by politics and macroeconomic policy. The trade regime remained fairly unrestricted for most of the period between 1964 and 1975. In response to the external shocks, government in 1975 adopted direct quantitative controls on trade as an instrument of determining macroeconomic balances and to influence the structure of protection accorded to industry. Using the input-output table developed in 1975, government calculated the effective rate of protection for the year. This formed the tariff structure meant to facilitate the building of a domestic import substitution manufacturing sector (Musonda F. and Adams C., 1999). The country had high tariffs that varied between 0% for intermediate goods and 150% for final goods. Attempts were made to reform the structure only in 1983 under the sponsorship of the IMF and world bank but were interrupted between 1987 and 1989. Government abandoned the liberalisation and reforms mainly because of their social costs that brought social unrest. Essential consumer goods and some capital and heavy intermediate inputs had lower tariffs while consumer durables had higher nominal tariffs of between 50% and 100%.

Table 2: Un-weighted mean tariff rates (%)

	1975		1981	1986	1992
	Nominal	Effective	Maximum	Maximum	Maximum
Consumer Goods					
• Food Products	40.1	2.9	41.5	48.9	42.6
• Other non-food	37.6	17.5	44.5	48.7	47.1
• Durables	82.1	14.4	45.4	52.5	48.6
Intermediate		3.5			
• Light	32.4		33.3	35.6	39.4
• Heavy	16.5		33.1	36.9	42.5
• Capital Goods	7.9	5.7	58.3	67.2	38.3

Sources: World Bank (1984); Ndulo and Mudenda (2007).

The World Bank estimated the effective protection of manufacturing at 160%. The subsector averages ranged from 30% for heavy intermediate goods to 370% for non-food consumption goods.

In addition to the tariff structure, government in 1975 turned to the use of quantitative restrictions as a means of maintaining external balance by influencing the level of imports. Import bans were introduced on commodities while foreign exchange was administratively allocated to firms as a way of controlling and protecting the domestic industry. The Ministry of Commerce and Industry made allocations on a firm-by-firm and product-by-product basis. However, the Ministry's allocation of foreign exchange was not a guarantee that the firm would obtain the foreign exchange. The Central Bank, through the Foreign Exchange Allocating Committee, was the binding constraint as it had the final discretion in allocating the available foreign exchange. Often, the state owned firms enjoyed preferential access to foreign exchange and therefore access to imports at increasingly overvalued exchange rates

(Op cit., p. 459). Further, the Committee determined the sectoral allocation of foreign exchange based on a pre-determined ranking of priority sectors.

On the export side, exporters were required to obtain an export licence from the export licensing unit of the Ministry of Commerce and Industry. The Industrial Development Act of 1977 provided for specific incentives for export promotion. These included:

- a. Exemption from tax and customs payments on imported machinery used in the production of export products;
- b. Relief from income tax;
- c. Adjustment of any taxes which applied;
- d. Relief from import duties on intermediate inputs; and
- e. Preferential access to import licences for inputs.

With the introduction of the foreign exchange auction system in 1985, producers of non-traditional exports (exports that excluded copper and cobalt) were allowed to retain 50% of their export proceeds for their own current account use. Despite providing these incentives, the manufacturing sector failed to expand export sales. By 1990, industrial exports accounted for less than two percent of total exports. The overall incentive system did not promote the production and export of manufactured goods. It promoted the production of final consumer goods for the domestic market rather than that of intermediate goods or exports. Moreover, it was biased towards industrial production rather than agriculture and mining which carried negative effective protection (Musonda f and C. Adams,1999)

A number of factors have been attributed to the poor performance of industries during the period under review. First, external trade was adversely affected by disruptions in Zambia's transport links due to the war following the Unilateral Declaration of Independence (UDI) in Rhodesia (Zimbabwe) by Ian Smith. Zambia could not have access to the rest of the world through the port of Durban. Moreover, the economic sanctions against apartheid South Africa implied reduced trade between Zambia and South Africa. This implied reduced usage of the Durban port which was a cost effective route to the major trading partners in Europe. The cost and reliability of transportation due to route reorientation to Tanzania impacted negatively on Zambia's overseas exports. Moreover, most of the firms lacked foreign exchange to procure capital equipment and spare parts. Thus they operated at less than half of their capacity (Seshamani V., 1988). Exporters had to be licensed from the Export Licensing Unit of the Ministry of Commerce and Industry using cumbersome procedures. They lacked access to export credit insurance and the focus on ISI forced firms to focus on the satisfaction of the domestic market before exporting. Further, the manufacturing sector depended on imported machinery and raw materials, thus aggravating the balance of payment position of the country.

Overall, the trade policies adopted by government were fraught with various difficulties. The tariff schedules were inconsistently punitive towards the agriculture sector and domestic manufacturers. The dependence on imported inputs limited the linkage effects of the ISI strategy. Agriculture was ignored. The anti-export biased nature of the policies inhibited private investment initiatives. While the ISI strategy was meant to encourage domestic production and save foreign exchange, it ignored export sales and suffered the predicament of a huge import bill for inputs and a limited national market for manufactured goods. Thus,

the current account deficit increased as foreign exchange problems escalated, creating the same problems it was meant to solve.

4. PERFORMANCE OF MANUFACTURING SECTOR 1968 TO 1990

The performance of the manufacturing sector was generally gauged by its annual contribution to GDP and formal sector employment. Further individual manufacturing firms were assessed on the basis of their profitability, average turnover, foreign exchange generation and capacity utilisation compared to the firm's budget and ability to lower production costs. This section, however, reviews industrial performance based on its contribution to GDP, employment and export sales.

4.1 Manufacturing in GDP

Overall, the use state-owned enterprises and ISI strategies helped to rapidly industrialise and diversify the economy during the first decade. The proportion of investment in manufacturing increased from 7% to 12% of total investment in 1964 and 1980 respectively. The manufacturing sector grew at an average of 12.6%, which was relatively higher than that obtained in most Sub Saharan African countries in the period. The share of MVA rose from 6.3% in 1964 to 12% in 1974 and to 15% in 1990 (Table 1).

Manufacturing output also became increasingly diversified, shifting from consumer goods to intermediate and capital goods. The share of food, beverages and tobacco in total MVA reduced from 52% in 1970 to 22% in 1980 while the ratio of chemical and chemical products increased from 9% to 19% during the same period (Table 3). However, the industrial production structure continued to be dominated by food, beverages and tobacco, textiles and leather, chemicals and chemical products, and basic metals and metal products for most of the 1980s.

The impressive performance of the industrial sector during the first post-independence decade could not be sustained after 1975. The economy suffered a major external shock as international copper prices fell by 40% while high prices of imported fuel raised import costs. This phenomenon exposed the weaknesses of an economy dependent on a single commodity, a weak and limited manufacturing base, an underdeveloped agriculture sector and an open economy (Ndulo C. and Mudenda D., 2007).

Table 3: Distribution of Manufacturing Value Added, 1965 - 1987

	1965	1970	1975	1980	1987
Food, Beverages and Tobacco	33.3	52.5	21.8	22.0	42.0
Textiles and Clothing	10.1	8.7	12.4	18.4	15.0
Wood and Wood Products an	7.0	3.8	4.9	4.2	3.0
Paper and Printing	5.6	3.5	5.9	5.7	6.0
Chemicals and Chemical Products	4.7	9.8	22.4	19.0	9.0
Non-metallic Mineral products	16.7	6.5	6.7	6.6	6.0

Basic Metals and Metal products	22.2	14.9	25.1	23.7	19.0
Other Manufacturing	0.5	0.3	0.7	0.4	

Sources: World Bank (1984:9) and Bank of Zambia (1991)

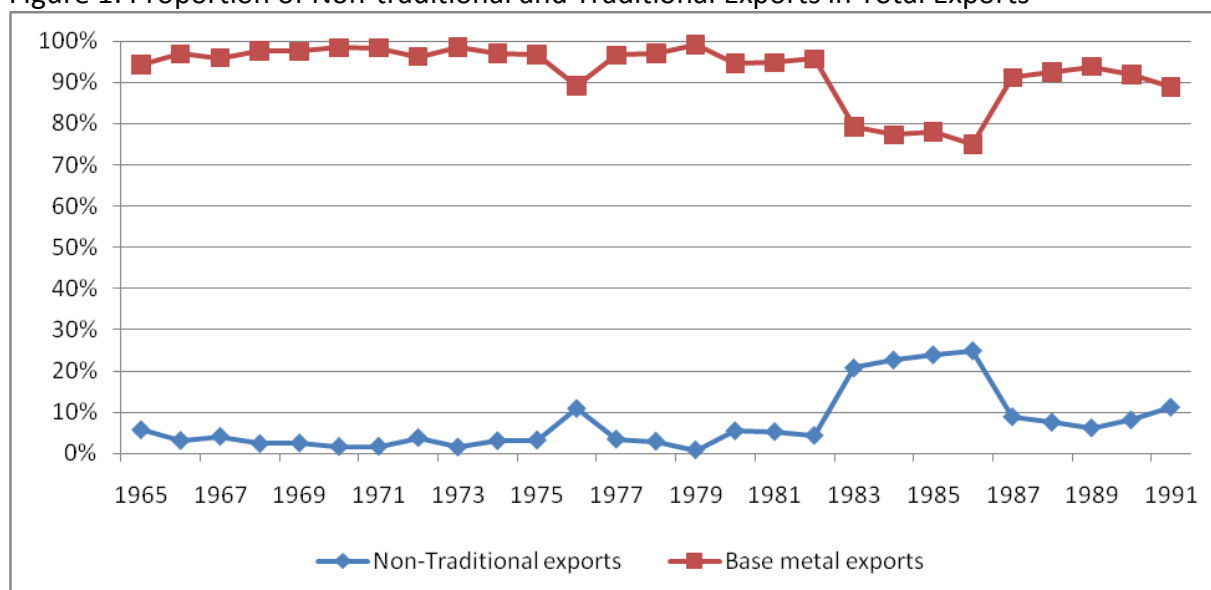
As a result of the external shocks of 1975, most of the manufacturing firms could not access foreign exchange to import inputs and spare parts. Thus they reduced their operations to less than 50% capacity. This was partly because of the nature of the investment in manufacturing and the scarcity of foreign exchange available for imported inputs and spare parts. The nature of the manufacturing sector was that it was highly dependent on imported inputs and spare parts (World Bank, 1984:19, World Bank, 1981). For example, the chemicals and chemical products sector was dominated by two capital-intensive plants for the manufacture of fertilizer and the refining of crude oil.

4.2 Exports Performance

The manufacturing sector produced very limited exports in the period under consideration in this segment. Exports consisted of cement, sugar and molasses, copper cable, menswear, crushed stone and lime, and explosives. These products accounted for 1.3% of total exports in 1977 and to 0.7% of total exports in 1980 (World Bank, 1984). The trade regime was biased against exports by manufacturers. High rates of protection made the home market much more profitable than foreign sales and allowed high costs to co-exist with satisfactory financial performance (Gulhati, 1989:23).

Generally the industrial structure created by an import substitution policy that was unsustainable. Production was heavily protected and inefficient. It was threatened by any trade policy that opened markets and promoted international competition.

Figure 1: Proportion of Non-traditional and Traditional Exports in Total Exports



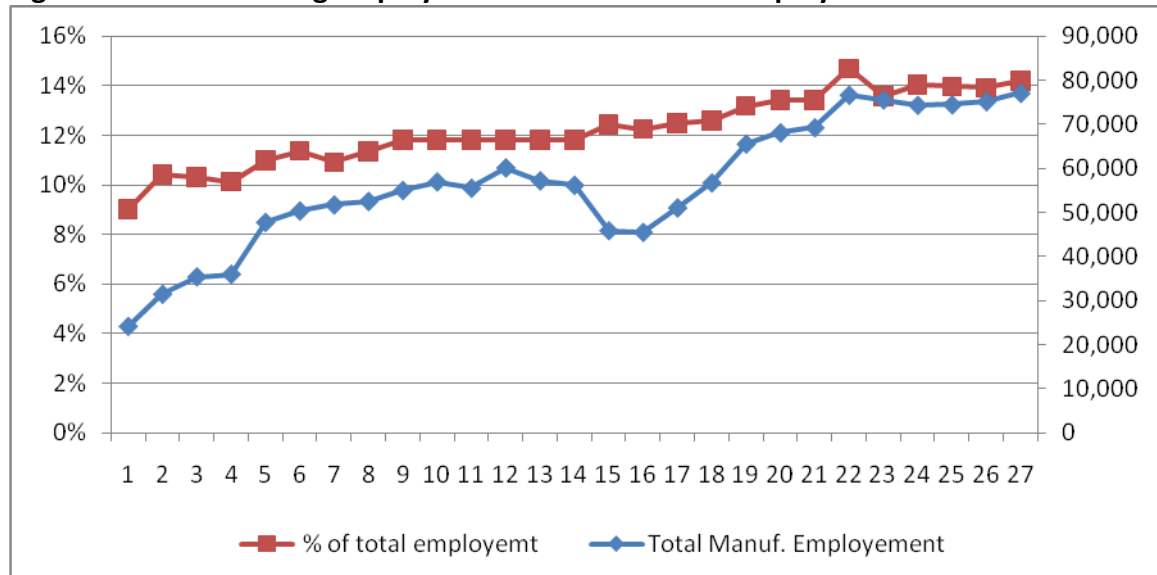
Source: Constructed from CSO database.

However, the sector was highly diversified and could contribute to export performance if it became more efficient. Industrial products with export prospects included processed food products, sugar, wood and wood products, grey cloth, menswear, cement, explosives and some fabricated metal products. In addition, the country had potential to expand the production and export of beverages and tobacco, textiles and leather, wood and wood products and non-metallic metal products.

4.3 Employment Trends

Manufacturing remained the second largest employer after the services sector during the period under review. Employment rose from 31,430, representing 9% of total formal employment in 1964, to 77,100, representing a 14% share in 1990. The high employment rates were accompanied by low worker productivity mainly because, in most cases, the social and political objectives of the industries overtook the profit objectives allowing for overstaffing in the parastatals (Seshamani, 1997).

Figure 2: Manufacturing employment as a % of formal employment



Source: calculations using data from the CSO database

The country could not generate enough resources for long-term investment and consumption. In order to maintain the parastatals and consumption, the country borrowed heavily, leading to a massive debt overhang. As a result, between 1985 and 1987, government adopted the structural adjustment programmes aimed at reforming the economy under the auspices of the international financial institutions, i.e., the International Monetary Fund and the World Bank. Over 80% of the parastatals were loss making and survived on government grants. Government proposed to gradually privatise its enterprises in order to induce efficiency in the industries. However, implementation of the reforms was very slow until 1991 when there was a change of Government from the United National Independence party to the Movement for Multiparty Democracy under the platform of change.

5. POLICY REFORM PERIOD: POST LIBERALISATION PERIOD 1991 - 2009

The new government embraced change and committed itself to pursuing market-oriented policies. Unlike in the previous period where the structure of manufacturing was shaped by policies of import substitution, protection and heavy public sector involvement, the policy focus shifted to developing an open, competitive, dynamic and sustainable industrial sector that was to be dominated by the private sector. The economy-wide reforms then adopted included: removal of exchange controls and the floating of the Kwacha; trade liberalisation that embraced the removal of quantitative restrictions on imports and exports and a reduction of tariffs; the removal of controls on food and other agricultural prices and the liberalisation of maize and fertilizer marketing; public sector downsizing and the privatisation of state-owned enterprises; and the liberalisation of the banking sector. Through these reforms, there was an expectation of increased private sector investment, an acceleration of growth, and the progressive diversification of the economy.

The initial objectives of the privatisation programme were to: scale down the government's direct involvement in the operations of enterprises; reduce the administrative load associated with this direct involvement; minimise state bureaucracy in enterprise operations; reduce the costs of capital expenditure and subsidies from public funds; promote competition and improve the efficiency of enterprise operations; encourage wide ownership of shares; promote the growth of capital markets; stimulate both local and foreign investment; promote new capital investment and derive capital income for the Treasury.

5.1 Industrial Policy: 1991- 2009

The industrial policy reforms were undertaken within the economy-wide structural adjustment programme reforms that involved broader liberalisation reforms that included price and exchange decontrols, trade liberalisation, marketing deregulation and many other structural reforms. In 1994, government developed the Commercial Trade and Industrial Policy. The policy's specific objective was to support industries that maximised the use of local raw materials and fostered long-run intersectoral relationships within manufacturing and among other sectors in the economy. In addition, sectors of industry, such as food products, wood products, textiles, clothing and leather, and other natural resource-based industries for which exports were potentially viable were encouraged. The state-led and pervasively regulated ISI strategy was abandoned in favour of a private-sector-led and export-oriented industrialisation (EOI) policy (MCTI, 1994).

Government industrial policy has remained largely constant since 1994. However, in 2005, the Ministry of Commerce Trade and Industry undertook to revise the Commercial, Industrial and Trade Policy. The vision of the new policy was: "To develop an enabling economic environment in Zambia which supports private investments, enables the development of domestic productive capacities, and contributes to the expansion of Zambia's international trade". The overall policy objectives as stated in the draft Commercial, Trade and Industrial (CTI) policy document are:

- i. To stimulate and encourage value-addition activities on primary exports as a means of increasing national export earnings and creating employment opportunities;
- ii. To transform the Zambian economy into a diversified and competitive economy which is well integrated into the international trading environment;
- iii. To stimulate investment flows into export-oriented areas in which Zambia has comparative advantages as a strategy for inducing innovation and technology transfer in the national economy;
- iv. To support the effective development and utilisation of domestic productive capacities as a means to increasing output and expanding employment opportunities;
- v. to facilitate the acquisition of modern technology to support value adding, industrial processes by domestic firms;
- vi. To facilitate public and private investments in testing infrastructure to support improvements in the quality and standards of Zambian products;
- vii. To assist domestic firms to increase their levels of efficiency and competitiveness, and therefore withstand increasing competition in domestic and international markets;
- viii. To formalise, monitor and regulate domestic trade activities with a view to promoting and stimulating a vibrant domestic trading sector; particularly by ensuring fair competition in the domestic market, and also protecting the welfare of consumers.

The policy outlines a number of guiding principles forming the foundation for the development and implementation of the policies. The key principles are intended to contribute to economic growth, poverty reduction, competitiveness of the domestic firms, export diversification and employment creation. The CTI further states that the goal of the National Industrial Policy is : “To develop a competitive, export-led manufacturing sector that contributes 20 percent of GDP by 2015”. Unlike during the period 1964 to 1991, the private sector is supposed to drive and implement the industrial policy. Government has restricted its role to improving the investment climate in order to make it conducive to private sector investment. It has endeavored to ensure that the macroeconomic environment is stable. In addition, government has provided a number of trade policy and fiscal incentives to promote industrial development.

5.2 Post-reforms trade policy

Zambia’s trade policy has remained largely unchanged since the 1991 structural adjustment programme reforms. These reforms involved removing exchange controls, reducing import duties, eliminating import and export licence requirements, abolishing export bans and introducing a number of export incentives, removing subsidies, and decontrolling prices. The country’s trade policy aims at providing a competitive environment for exports.¹ According to the World Bank’s Trade Tariff Restrictiveness Index², Zambia’s trade regime is more open than that of an average sub-Saharan African or low-income country. The simple average applied MFN tariff of 13.4% has dropped only slightly since the late 1990s, but Zambia continues to work toward lower trade barriers, especially through the COMESA and SADC free-trade areas (WTO, 2009).

¹ Government still regulates the export and import of maize for food security reasons. Some exports such as timber, scrap metal and precious metals are also taxed.

² Trade restrictiveness Index is designed to measure how restrictive the trade policies themselves were providing.

Table 4 : Main Trade-Related Measures, 1991-2003

Year	Policies
1991	Nominal applied tariff levels reduced to 0% – 50% range.
1993	Nominal applied tariff levels reduced to 0%-40% range.
1994	All controls on current and capital accounts abolished.
1995	Import sales tax changed to import value added tax (VAT).
1996	Nominal tariff levels reduced to the 0% – 25% range. SADC Trade Protocol signed.
2000	COMESA FTA with zero duty for originating goods among the nine members. SADC tariff reduction phase down begins with objective to establish a SADC FTA by 2012. AGOA Agreement signed.
2001	European Union EBA established with duty free access to the least developed countries (LDCs) exports except for armaments and three sensitive products.
2003	Zambia Export Processing Zone Authority established.
2006	Multi-facility economic Zones launched.
2009	COMESA Customs Union

Trade oriented instruments

A number of incentives aimed at promoting industrial development and general investment have been introduced and or implemented since the early 1990s. These are cited in the World Trade Organisation (2009) Zambia’s trade policy review. Among the strategies and incentives adopted are: the duty drawback, investment incentives in manufacturing, multi-facility economic zones and export promotion and finance. These are discussed below:

Duty and tax relief

Exporters are entitled to a duty drawback or refund on imported input taxes (except for capital items and mining inputs) used for export production. This scheme is based on an input-output coefficient system at the individual firm or sectoral level. Duties on imported raw materials used in the production of exports are refunded to producers. In addition, there is a temporary admission system (manufacturing under bond) meant to provide exporters with relief on import duty paid on imported raw materials. Manufacturing under bond ensures that manufacturers of ready made exports are allowed to import their required inputs duty and tax free. This ensures that intermediate imports and final outputs for exports are not taxed in order to improve the competitiveness of Zambian exports in regional and international markets.

Investment Incentives in manufacturing

Government, since 1987, has emphasised export diversification as a way of reducing export instability. Thus the Export Board of Zambia (EBZ) was established to promote the production of non traditional exports (NTEs).³ In 2006, the Export Board of Zambia, through the Zambia Development Agency Act of 2006, was merged with the Zambia Investment Centre and Zambia Privatisation Agency to form the Zambia Development Agency (ZDA). The ZDA Act of 2006 introduced special tariff exemptions for designated priority sectors, mostly

³ NTEs are defined as all non-mineral exports that comprise, among others; animal products, primary and processed agricultural products, cement, asbestos and other building materials, sugar, engineering products, floriculture and horticultural products, textiles, cotton yarn and garments, semi-precious stones, and electricity.

in the manufacturing sector. These include 0% duty rate on all machinery and equipment for five years for enterprises under the ZDA.

In addition, the Act provides a number of exemptions that are still in force. These are:

- a. For five years on all machinery, fixtures and equipment, tools, motor vehicle parts, motorcycles and bicycles and parts used in the assembly of motor vehicles, motorcycles, and bicycles;
- b. For five years on inputs used in the textile and clothing industry, such as grey fabrics, machinery, sewing threads, sewing machine spares, and trimmings;
- c. For five years on material used in the manufacture and packaging of cement, and the manufacture of roofing sheets;
- d. For five years on machinery and equipment acquired by enterprises that will operate priority sector or rural enterprises as designated by the Minister of Commerce Trade and Industry ;
- e. For computer parts; and
- f. On printed paper board used for packaging UHT milk.

Multi-facility economic zones

In order to promote industrial development, government through the ZDA Act introduced multi-facility economic zones (MFEZs), under which developers, operators, and tenants benefit from a number of fiscal and non-fiscal allowances. The authorities have abandoned efforts to establish export processing zones (EPZs) and are focusing on MFEZs. Whereas EPZs were aimed at promoting exports production the MFEZ offers a wider set of incentives to exporting and non-exporting enterprises. Since 2008, two MFEZ sites have been under construction in Lusaka and Chambishi on the Copperbelt. The construction of infrastructure and planning of the MFEZ is financially supported by the Japanese and Chinese governments. There are special fiscal and incentives (such as tax holidays and imports duties exemptions) for investors in the MFEZ which can be accessed by both Zambian and foreign firms to promote manufacturing, exports, technological development, skills transfer and job creation. Despite being considered as an important industrialisation tool, the international Monetary Fund and the World Bank have cautioned industrial policy makers of to be weary of the potential adverse fiscal effects of the huge tax concessions being given to investors in these areas⁴.

Export promotion and finance

There are a number of NTE export promotion and financing sources available for producers from donors through the Export Promotion and Market Development Division (EPMD) of ZDA. The division helps exporters by providing technical and financial assistance for export development, market intelligence and other trade promoting activities. The EPMD provides European Union-sourced export development loans at low interest rates to selected sectors that include downstream processing of raw materials, crocodile industries and some food processing. In addition, Zambia is a beneficiary of export promotion activities under the Integrated Framework (IF).

⁴ Statement by the IMF Staff Mission at the Conclusion of a Visit to Zambia Press Release No. 07/62 , April 2, 2007

Participation in Trade Arrangements

Zambia is currently a member of two regional trade agreements SADC and COMESA. In addition, the country benefits from the EU's Everything But Arms (EBA) initiative, the Cotonou Agreement and the American Growth Opportunity Act. These arrangements provide Zambian goods with market access at preferential rates. For instance, some Zambian goods are given quota and duty free market access to SADC and some COMESA member countries. These conditions have contributed to the rapid increase in Zambian goods in the region. Zambia sources over 50% of its imports and exports over 45% of its products within SADC.

Other efforts to improve the business climate for both exporters and other producers are being implemented in Zambia. Government introduced the donor funded Private Sector Development Initiative aimed at reducing the cost of doing business in the country. The initiative aims at making the private sector become competitive in the international markets. The initiative has introduced far reaching reforms ranging from macroeconomic stabilisation to regulatory reforms. For instance, the Business Licensing Reform process under the Private Sector Development Initiative was launched during 2009 with the objective of enhancing the competitiveness of the private sector by simplifying the business regulatory and licensing system.

Industrial and Trade Policy making

Before the reforms, the formulation of policies was the preserve of government agents with little or no private sector participation. However, the trend has changed in the recent past. The resumption of development planning has made policy making in most sectors more inclusive than it was in the 1970s. All stakeholders participate in industrial policy making by inputting in the relevant chapters of the national development plans. In addition, government has promoted the participation of the private sector through the Private Sector Development Programme. The private sector (through various bodies such as the Chamber of Commerce and the Zambia Business Forum), academia and civil society organisations are represented in key policy making committees of the Ministry of Commerce Trade and Industry. This implies that policy and strategy making has become more inclusive than it previously was.

There is also a move towards using research in policy-making, especially pertaining to trade-promoting industrial policies and sector identification. For instance, the draft CTI report has benefited from detailed studies conducted by the International Trade Centre on export priority sector surveys and the Diagnostic Trade Integrated Studies (DTIS) undertaken by the Ministry of Commerce under the auspices of World Bank in 2005. The priority sector study was conducted to identify the sectors in which Zambia has a competitive advantage in regional and international markets using, among others, SWOT and the market access potential analysis.⁵ The DTIS also aimed at identifying competitive areas that could be promoted for increased export earnings and poverty reduction. The principle objective of

⁵ The key products that were identified in the report are: fresh vegetables, tobacco, paprika, cotton, cotton yarn, leather products, sugar, fresh flowers etc.,

the DTIS was to mainstream trade in national development planning as a tool for poverty reduction. The sectors identified in these studies are prioritised and, at times, given support in terms of access to affordable credit from cooperating partners through their producer associations.

Despite using research results in policy formulation, there are no performance indicators in the policy documents against which performance can be gauged. For instance, the only measurable performance indicator with a target on manufacturing in the CTI is the achievement of 20% of GDP by 2015. There are no indicators of industrial performance for some of the operational objectives such as poverty reduction and export diversification.

In addition to the two aforementioned studies, the Ministry of Commerce Trade and Industry undertook a survey of small and medium enterprises covering the period 2003 to 2004. The objectives of the survey were to; establish (i) the impact of small and medium enterprises (SMEs) on poverty reduction, (ii) the link between the sector's performance and the welfare of entrepreneurs and (iii) the contribution of SMEs to economic performance.

The study found that the overall performance of SMEs was constrained by lack of skills among entrepreneurs, inadequate start-up capital, administrative barriers such as financial requirements, corruption and criminality and finally the harsh, unstable business and economic environment. Based on the findings the government in 2006 facilitated the creation of ZDA to ease administrative problems⁶.

5.3 Synergy between Industrial and Trade Policy

Zambia's Commercial, Trade and Industrial policy of 2005 anchored industrial development on trade policy. The objective is to develop an industrial policy that is export oriented with less dependency on copper inputs. Using the priority sector survey report generated in consultation with the private sector and other stakeholders, government, adopted six main priority manufacturing sectors, namely: processed foods, textiles and garments, engineering products, gemstones, leather and leather products and wood and wood products for industrial development. The methodology used in the priority sector survey included used among others the following criteria: The characteristics of the international environment, such as growth of world demand and Zambia's access to international markets; the export performance of Zambia, such as its world market share; and the domestic supply capacity, such as the quality of products or the efficiency of supporting industries and the cost of initiating or expanding production to exportable levels. Further, the criteria also considered the potential for employment generation.

The promotion of investment in the production of processed foods such as sugar, wheat flour, stock feeds, and maize meal and for the textiles and garments industries is being encouraged through the agriculture policy. Government, through export taxes, has restricted the exports of raw cotton in order to encourage value addition within the textiles

⁶ The Zambia Development Agency (ZDA) is an amalgamation of the five statutory bodies, namely the Zambia Investment Centre (ZIC), the Zambia Privatisation Agency (ZPA), the Export Board of Zambia (EBZ), the Small Enterprise Development Board (SEDB), ZEPZA

sector. Overall, government’s trade polices and industrial policies have been geared towards providing an environment conducive to the private sector flourishing in the country.

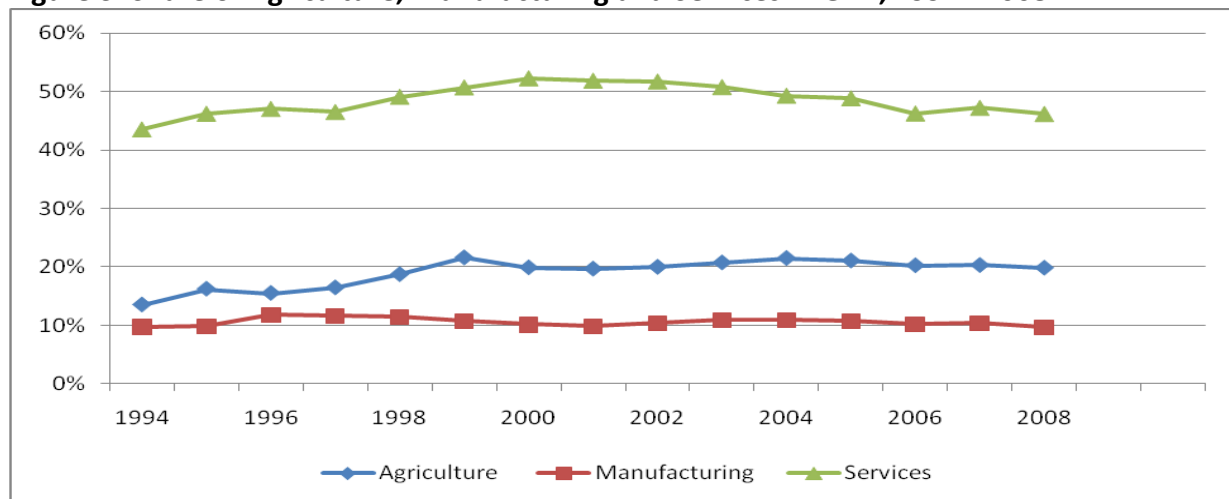
5.4. Performance of the Industrial Sector 1991 – 2008

The performance of the manufacturing sector is assessed based on its contribution to output, employment, and exports and exports diversification. These are analysed in turn in what follows.

5.4.1 Contribution to GDP

Following the announcement of the privatisation programme in 1992, most state-owned enterprises were not allowed to re-invest in their operations, while those that depended on government support for survival were liquidated and some of the newly privatised firms were relocated to other countries such as Zimbabwe. This resulted in a fall in the share of MVA in GDP: from 15% in 1990 to 9.5% in 1994. However, the share of MVA marginally increased to an average of 10% between 1996 and 2008. Most of the manufacturing activities depend on mining and agricultural sectors. The problems that these sectors have experienced during this period partly explain the stagnation of the manufacturing sector. Among the constraints are the weak local private sector with little or no access to cheap credit, the poor regulatory environment and infrastructure and inadequate human capital (National Economic Advisory Council – (NEAC), 2007).

Figure 3: Share of Agriculture, Manufacturing and Services in GDP, 1994 - 2008



Source: Calculated using data from the Ministry of Finance

Despite the reforms of 1991, the structure of the manufacturing sector has not changed much from the situation before the reforms were implemented. Food processing, beverages and tobacco have continued to dominate the manufacturing sector. The contribution of these sub-sectors to manufacturing value added declined from an average of 64% between 1994 and 1998 to 62% in 2008. The marginal decline in the food processing sector has been recouped by the textiles and leather subsector production – driven mainly by improved international prices for cotton yarn, crocodile and beef industries. The share of wood and

wood products rose from 8% in 2006 to 10.4% in 2008 . This can be explained by the increasing value-added processing of raw timber to products such as particle boards, plywood that are being exported within the region. The main destination of wood products are South Africa, Zimbabwe and Botswana. The other sectors – the chemicals and plastics sub-sectors – have not seen their share altered.

Table 5: Structure of the Manufacturing - Value Added Sector 1994- 2008

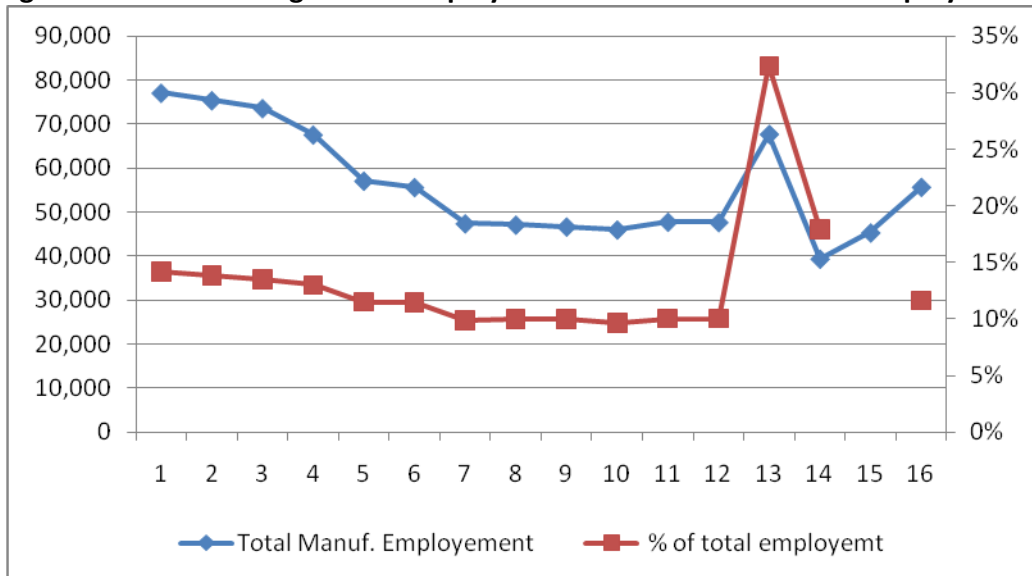
	1994 - 1998	1999- 2002	2003	2004	2005	2006	2007	2008
Food, Beverages and Tobacco	63.7%	60.5%	62.3%	61.1%	61.8%	60.3%	61.2%	62.0%
Textile, and Leather Industries	12.3%	17.2%	15.7%	15.9%	14.6%	15.7%	13.6%	10.9%
Wood and Wood Products	7.7%	6.7%	7.3%	7.9%	8.0%	8.0%	8.8%	10.4%
Paper and Paper Products	2.7%	4.1%	4.2%	4.4%	4.7%	4.8%	5.0%	6.1%
Chemicals, Rubber and Plastic Products	7.8%	7.9%	8.0%	8.2%	8.2%	8.2%	8.3%	7.8%
Non-metallic Mineral Products	1.4%	1.4%	1.3%	1.5%	1.5%	1.4%	1.4%	1.2%
Basic Metal Products	0.7%	0.2%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%
Fabricated Metal Products	3.7%	1.9%	0.9%	1.0%	1.0%	1.3%	1.6%	1.3%
	100%	100%	100%	100%	100%	100%	100%	100%

Source: Own calculations using data from the Ministry of Finance.

5.4.2 Contribution to Employment

The services sector is the largest formal employment sector in Zambia. It is followed by the agriculture sector. The share of formal sector employment in the manufacturing sector exhibited high instability during the post reform period. Generally it declined from an average of 14% between 1987 and 1991 to an average of 9% between 1993 and 1999. The share increased again to average 10% percent between 2001 and 2005 before settling at 12% in 2006.

Figure 4: Manufacturing Formal Employment as a % of Total Formal employment 1991-2006



Source: Constructed from Central Statistical database.

The drop in the share of formal employment in the manufacturing sector could be explained by the closures of firms as well as retrenchments that were experienced during the early 1990s. Despite the reduction in employment, the average annual labour productivity continued to rise during the period. This is because of most of the parastatals that were privatised during the period under review had often, for reasons of political expedience, employed more workers than necessary (NEAC, 2007)⁷.

5.4.3 Contribution of manufacturing to Exports

One of the policy objectives of industrialisation is to diversify the sources of foreign exchange from copper and cobalt to non-traditional exports (NTEs) especially manufactured goods whose prices in the global markets tend to be stable. Since the adoption of the reforms, the share of NTEs in total exports increased from 9% in 1992 to peak at 40% in 2002. The share dropped to 19% in 2008, however. Fluctuations in the contribution of NTEs to total export earnings is explained by the rapid growth of copper exports compared to the NTEs following the increased local production and prices in the international markets. In absolute terms, NTEs grew by more than 160 % between 1992 and 2008.

Exports of manufactured goods increased from US\$62 million in 1992 to US\$654 million dollars in 2008. Concomitantly, the share of manufactured goods in total exports increased from 5% in 1992 to 18% in 2004 and declined to 13% in 2008 on account of the rapid growth in copper revenues.

⁷ The labour force survey reports (2005) by CSO estimated that only 3% of the informal sector workers are employed in the manufacturing sector. The majority (80%) are employed in the agriculture sector while 11% are employed in trade and distribution

Table 6: Selected Exports Indicators

	1992	1993	1995	1998	2002	2004	2005	2006	2007	2008
Total Exports \$m	1174	1029	1,186	828	928	1,588	2,080	3,841	4,226	4,928
Traditional Exports \$m	1072	905.7	984	526	560	1,103	1,514	3,084	3,400	4,001
NTEs \$m	102	124	202	302	368	485	566	757	827	927
Traditional (% of Total Exports)	91%	88%	83%	64%	60%	69%	73%	80%	80%	81%
NTEs (% of Total Exports)	9%	12%	17%	37%	40%	31%	27%	20%	20%	19%
Growth rate-Traditional Exports (%)	3%	-16%	8%	-35%	-5%	65%	37%	104%	10%	18%
Growth rate in NTEs (%)	-16%	22%	16%	31%	15%	27%	11%	34%	9%	12%
Manuf. Exports \$m	62	103	124	160	158	283	296	492	463	654
Manuf. Exports/Total Exports	5%	10%	11%	19%	17%	18%	14%	13%	11%	13%
Manuf. Exports/NTEs	61%	83%	62%	53%	43%	58%	52%	65%	56%	71%

Source: calculated from the CSO database.

The proportion of manufactured goods in NTEs increased from 61% in 1992 to 71% in 2008. The impressive performance can be attributed to the open trade policies; privatisation of the inefficient parastatals and increased private investment (especially from South Africa) that have increased the competitiveness of the manufacturers of especially processed foods and cables (Table 6).

5.4.4 Structure of manufactured exports

The increase in the manufactured goods has been associated with the increasing proportion of engineering products and other manufactured goods at the expense of textiles and garments. The share of manufactured goods for exports in total NTEs increased from 40% in 1992 to a peak of 58.7% in 2006 before dropping to 46% in 2008. The engineering products that have gained prominence comprise finished and semi-finished non-ferrous metals, finished metals and other engineering products. Specific products include bare wire, copper rods, copper wire, aluminium cable wire, and flat metal sheet, drums, building wire, power cables and steel wires. These are shown in table 7.

The main export destinations include South Africa which continues to be the largest principal market for cables, copper rod and aluminium, followed by Kenya, Tanzania, Zimbabwe, Malawi, Botswana, Namibia and the Democratic Republic of the Congo. Other markets were Uganda, the Philippines, Switzerland, Hong Kong, India, Mauritius and Mozambique (Zambia Development Agency, 2008).

Table 7: Structure of manufactured exports

	1992	1995	2001	2005	2006	2007	2008
Building Materials	6.2%	4.9%	5.6%	3.2%	2.9%	1.7%	5.5%
Chemical Products	3.2%	1.9%	4.7%	7.9%	4.1%	8.3%	14.3%
Engineering Products	40.2%	32.8%	16.7%	36.9%	58.7%	45.5%	46.3%
Textiles and Garments	24.3%	29.0%	27.0%	10.5%	4.0%	4.8%	4.1%
Leather	0.6%	1.0%	3.1%	1.5%	1.0%	1.3%	1.6%
Petroleum Oils	1.8%	9.0%	1.3%	5.5%	2.7%	4.4%	4.0%
Processed Foods	23.0%	21.3%	33.8%	25.6%	21.1%	24.8%	18.8%
Other Manufactures	0.6%	0.0%	7.2%	8.5%	5.0%	8.4%	4.4%
Non- metallic	0.1%	0.1%	0.7%	0.4%	0.5%	0.7%	1.1%
Total Manufactures	100%	100%	100%	100%	100%	100%	100%

Source: calculated using data from the ZDA database.

The share of chemical products⁸ in total manufacturing exports has also increased from 3.2% in 1992 to 14.3% in 2008. The growth is driven by huge investment and huge demand from within the region. The overall impressive performance in the manufacturers can be attributed to quota free market access for most manufactured goods accorded to Zambian exports under the SADC and COMESA markets.

6. CONCLUSIONS

Zambia's industrial and trade policy has evolved from the government controlled socialist regime between 1968 and 1991 to a highly liberal, market oriented regime. Under the socialist regime, parastatals and ISI were used as industrialisation strategies. The manufacturing sector grew rapidly during the first decade and declined in the subsequent years within this period. Trade policy was the principal instrument used to limit external competition for industry. The industrial sector was treated as an infant industry and was protected from imports by high tariffs and foreign exchange controls. However, the high tariffs on intermediate inputs increased the cost of production, thus making the firms less efficient, with firms operating at less than half of their full capacity. There were limited linkages between the manufacturing sector and other sectors of the economy such as agriculture and mining. The firms were oriented towards domestic market satisfaction instead of exports. However, the structure of the manufacturers had diversified, thus creating potential for exports. Regional integration did not play any role in industrial development

⁸ Chemical products include automotive batteries, soap/detergents, detonators/explosives, insecticides, sulphuric acid, argon gas/nitrogen, medicaments and fertilizers, cosmetics, dental products, ferrosilicon, insecticides and ammonium nitrate

Overall, the trade policies adopted by government were fraught with various difficulties. The tariff schedules were inconsistently punitive towards the agriculture sector and domestic manufacturers. The anti-export biased nature of the policies inhibited private investment initiatives. While the ISI strategy encouraged domestic production and consumption, ignoring export sales brought about the predicament of increased imports of intermediate inputs and a limited national market for manufacturer goods.

In 1991, government adopted market-oriented policies. It dismantled price and foreign exchange controls and privatised most parastatals. Trade policy has been used as a means of industrialisation through the promotion of export sales. Thus a number of incentives such as the duty drawback, investment capital, and MFEZ are being implemented to promote industrialisation through increased export sales. Moreover, Government has actively participated in regional integration in a bid to gain easy access to regional markets for intermediate inputs from such countries as South Africa – and a large export market – and to attract direct foreign investment in industries, both from the region and internationally. Fiscal and infrastructural incentives have been created for investors in the country. The value and variety of manufactured goods has increased since liberalisation. Further, government has recognised and embraced the role of various stakeholders in trade and industrial policy formulation processes.

Furthermore, the industrialisation and trade policies are promoting increased linkages among various sectors of the economy. For instance, government is discouraging the exports of some primary commodities and is encouraging value addition, especially of agricultural products.

7. REFERENCES

- Bahaman M. R (1978) Zambia: Impact of Industrial Strategy on regional imbalance and social inequality, Research report No. 44, The Scandinavian institute of African Studies, Uppsala.
- Fincham, R. (1980) "Economic Development and the Development of Industry in Zambia" The Journal of Modern African Studies Vol.18, 2GRZ (1995) Policy Framework Paper, 1995-98. Lusaka: Government Printer.
- Galati R. (1989) Impasse in Zambia: The Economics and Politics of Reform. Washington, D.C., Economic Development Institute, The World Bank.
- Ministry of Finance and National Planning (2006) Fifth National Development Plan, 2006-2010. Lusaka: Government of the Republic of Zambia.
- Ministry of Commerce Trade and Industry (1994) Commercial Trade and Industrial Policy. Lusaka.
- Musonda F, and C. Adam (1999) Zambia, In Oyejide T., B. Ndulu, AND Gunning J. W. (Eds) Regional integration and liberalisation in sub-Saharan Africa: Country case studies: Country Case Studies, New York, and St. Martins Press. PP 461 - 520
- Mwanza A. (1998) The structural Adjustment Programme In Zambia, in Mwanza A (end) Structural Adjustment Programme in SADC region, SAPES Books series, Harare
- National Advisory Council (NEAC) (2007) Growth Trends and Issues in the Zambian Manufacturing sector: 1995-2005, Unpublished report
- UNCTAD (2001) Economic Development in Africa: Performance, Prospects and Policy Issues. New York: United Nations.
- UNCTAD (2005) Zambia: Investment Policy Review. Geneva: United Nations.
- UNCTAD (2006) World Investment Report. Geneva: United Nations.
- UNCTAD (2009) The least Developed Countries Report 2009. Geneva: United Nations.
- UNCTAD (2007) Rethinking Industrial Policy; Discussion papers Number 183, Geneva: United Nations
- Seshamani V. (1994) "Zambia's Industrial Strategies: Problems and Prospects", in Kashioki M, M. Lemba, C., Milimo, V. Seshamani (eds) African Social Research, Vol 38/38 University of Zambia, Lusaka

- Seshamani V. (1988) "Industrial Development in Zambia: Retrospect and Prospect", in Coughlin P. and Ikiara G. (eds.) Industrialisation in Kenya: In Search of a Strategy. London: James Currey. PP 51 - 70
- World Bank (1984) "Zambia Country Economic Memorandum: Issues and Options for Diversification", World Bank, Washington.
- World Bank (1981) Industrial Strategy for Late Starters: The experience of Kenya, Tanzania and Zambia, World Bank Staff Working paper No 457, The World Bank, Washington DC.
- World Bank (1984) Zambia: Industrial Policy and Performance. Washington, D.C.: Report No 4436-ZA, The World Bank.
- World Bank (1994) Industrial Performance and Policy. Washington, D.C. Economic Management and social policy group, World Bank.
- World Bank (2001) Zambia; Public Expenditure Review: Public Expenditure, Growth and Poverty: A synthesis. Report No 22543-ZA, World Bank.
- World Bank (2004) Zambia country Economic Memorandum, Vol. 1 & 2. World Bank
- World Bank (2006) Zambia's Prospects for Sustainable Growth, 1995-2005. Report No 75477- Washington, D.C
- World Trade Organization (2003) Trade Policy Review: Zambia, 2002. Geneva: WTO.
- World Trade Organization (2009) Trade Policy Review: Zambia, 2008. Geneva: WTO.
- Zambia Development Agency 2008, Exporter Audit Report, Government of the Republic of Zambia